

Message Text

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E.O. 11652 N/A

TAGS: EFIN, JA

SUBJECT: JAPAN'S BUDGET FOR FISCAL 1975: AUSTERE

PASS TREASURY FOR WIDMAN

SUMMARY: GOJ BUDGET FOR FISCAL 1975 TO BE ANNOUNCED

JANUARY 4, IS REPORTDELY QTE AUSTERE UNQTE WITH A
BASICALLY RESTRICTIVE TONE. MOST OF THE BUDGET INCREASE
WILL BE NEEDED FOR HIGHER WAGES OF GOVERNMENT EMPLOYEES
WITH LITTLE LEFT FOR NEW PORGRAMS. RECEIPT SIDE ALS
STRIKES ANTI-INFLATION POSTURE WITH TAX CUSTS SUB-
STANTIALY LESS THAN LAST YEAR AND PLANNED PRICE IN-
CREASES FOR PUBLICALLY PRODUCED COMMODITIES AND SERVICES
TO BE DELAYED OR MODERATED. END SUMMARY.

1. RESPECTED FINANCIAL JOURNAL (NIHON KEIZAI) REPORTS THAT
GON GENERAL ACCOUNT BUDGET FOR JFY 1975 (APRIL 1975-
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MARCH 1976) WILL BE ABOUT 25 PERCENT ABOVE ORIGINAL BUD

GET FOR JFY 1973. IN VIEW OF STRONG INFLATION DURING PAST YEAR AND LARGE WAGE INCREASE GRANTED GOVERNMENT WORKERS IN NOVEMBER 1974, BUDGET IS DESCRIBED BY NEWS REPORT AS QUITE AUSTERE. MOST OF THE PLANNED ¥2,100 MIL YEN INCREASE WILL BE NEEDED TO PAY FOR THE HIGHER WAGE OF THE GOVERNMENT STAFF.

2. PLANNED INCREASE IN THE FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) WILL BE LIMITED TO ABOUT 15 PERCENT. THIS IMPLIES A REDUCTION FOR THIS PROGRAM IN REAL TERMS. HOWEVER, IN VIEW OF POSSIBILITY THAT RECESSION MAY PROVE MORE TENACIOUS THAN GOJ EXPECTS, MOF OFFICIALS REPORTEDLY WILL MAINTAIN QUITE FLEXIBLE POSTURES ON SIZE OF BOTH FLIT AND BUDGET PROPER. BUDGET INCLUDES FLEXIBILITY CLAUSE PERMITTING MOF TO INCREASE DISBURSEMENTS WITHOUT DIET APPROVAL IF FISCAL STIMULUS IS NEEDED, AFTER APRIL-JUNE QUARTER.

3. ALTHOUGH COMPOSITION OF BUDGET NOT YET FINAL, NEWS REPORTS INDICATE PUBLIC WORKS SPENDING WOULD BE MAINTAINED AT ABOUT SAME LEVEL AS JFY '74 (I.E. REDUCTION IN REAL TERMS.) HOWEVER SOCIAL SECURITY PROGRAMS PM MIKI IS COMMITTED TO BOOST WILL GET SIGNIFICANTLY LARGER ALLOCATION THAN IN JFY 1974.

4. ON RECEIPT SIDE, TAX CUT LIKELY TO BE ONLY ONE-FOURTH AS LARGE AS THE CUT GRANTED LAST APRIL. SINCE INFLATION HAS PUT VIRTUALLY ALL NOMINAL FAMILY INCOMES IN A HIGHER TAX BRACKET, JAPAN'S PROGRESSIVE RATE IMPLIES THAT ACTUAL TAX PAYMENTS BY MOST PERSONS WILL INCREASE IF CUTS ARE AS MODEST AS NOW PROPOSED.

5. INCREASED RECEIPTS FOR GOVERNMENT CORPORATIONS WOULD BE LIMITED AS PRICE HIKES INITIALLY PROPOSED FOR THEIR COMMODITIES OR SERVICES WILL BE DELAYED OR REDUCED.

POSTAL FEES WILL NOT RISE UNTIL OCTOBER; PHONE AND TELEGRAM RATES WILL REMAIN AT PRESENT LEVELS. CIGARETTE PRICE INCREASE WILL BE LESS THAN ORIGINALLY PROPOSED.

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6. FINALLY VIEW IS THAT BASICALLY RESTRICTIVE BUDGET POSTURE, MODERATE SIZE OF TAX CUTS, AND DELAYING OF PRICE INCREASES BY GOVERNMENT CORPORATIONS ALL DESIGNED TO FIGHT INFLATION AND CREATE PUBLIC BELIEF IN PRICE STABILITY PRIOR TO SPRING WAGE OFFENSIVE. FIRST TWO MEASURES CLEARLY ACT TO LIMIT AGGREGATE DEMAND FOR RESOURCES, ALTHOUGH QUITE FLEXIBILITY PROVISION QUITE SETS

UP MACHINERY FOR EXPANSIONARY STEPS IF ECONOMY REVIVES
TOO SLOWLY. THRID STEP IS PARTIAL EQUILIBRIUM MEASURE
WHICH MIGHT ACTUALLY ADD TO INFLATION IN LONG-RUN; GOJ
APPARENTLY BELEIVES SHORT -TERM IMPACT OF THIS MOVE UPONN
PUBLIC'S EXPECTATIONS OUTWEIGH ANY LONG-
TERM DRAWBACKS.
HODGSON

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